

KASNEB REVISION KIT

**AUDITING AND
ASSURANCE
REVISION KIT**

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PART A

TOPICALLY ARRANGED

PAST EXAMINATION QUESTIONS

TOPIC 2**ASSURANCE AND NON- ASSURANCE ENGAGEMENTS****QUESTION 1****December 2025 Question Four A**

The directors of Karibu Ltd. have prepared a cash flow forecast for submission to Fedha Bank. They have requested you as their auditor, to provide a negative assurance report to this cash flow forecast.

Required:

- (i) Distinguish between “positive assurance” and “negative assurance”. (4 marks)
- (ii) Evaluate TWO advantages the directors of Karibu Ltd. could derive from the negative assurance on their cash flow forecast. (4 marks)

QUESTION 2**August 2025 Question One B**

An organisation that you have been auditing has approached your audit firm to review its interim financial information before it releases to the public on quarterly basis as required by the regulations governing its operations.

Required:

In reference to International Standards on Review Engagements (ISRE) 2410, describe THREE general principles that your firm would have to apply in performing the review engagement. (6 marks)

QUESTION 3**April 2025 Question Three C**

Discuss THREE differences between a “review engagement” and an “external audit”. (6 marks)

QUESTION 4**August 2024 Question One C**

Distinguish between “reasonable assurance engagements” and “limited assurance engagements”. (4 marks)

QUESTION 5**April 2024 Question One B**

Enumerate FIVE elements of an assurance engagement. (5 marks)

PART B

SUGGESTED

ANSWERS AND SOLUTIONS

TOPIC 2**ASSURANCE AND NON- ASSURANCE ENGAGEMENTS****QUESTION 1****December 2025 Question Four A****(i) Distinction between positive assurance and negative assurance****1. Positive assurance**

Positive assurance is an explicit opinion expressed by the auditor or practitioner stating that, in their judgement, the subject matter has been prepared, in all material respects, in accordance with the applicable framework. It is typically provided following a reasonable assurance engagement, such as a statutory audit.

2. Negative assurance

Negative assurance is a statement that nothing has come to the practitioner's attention that causes them to believe the subject matter is materially misstated or not prepared in accordance with the applicable criteria. It is commonly issued in limited assurance engagements, such as reviews of forecasts or interim financial information.

(ii) Advantages of negative assurance on the cash flow forecast**1. Enhanced credibility with the bank**

Negative assurance from an independent auditor increases the reliability and credibility of the cash flow forecast submitted to Fedha Bank. It provides the bank with comfort that the forecast has been subjected to independent review procedures, even though it is not a full audit.

2. Lower cost and quicker reporting

Compared to a reasonable assurance engagement, a negative assurance engagement requires less extensive testing and evidence. This results in reduced professional fees and faster completion, enabling Karibu Ltd. to meet the bank's timelines efficiently while still benefiting from external assurance.

3. Validation of Underlying Assumptions The process of obtaining negative assurance requires the auditor to review the assumptions used to build the forecast (e.g., projected sales growth, inflation rates, or interest costs). This provides the directors with a "sanity check." If the auditor finds no reason to believe the assumptions are unrealistic, it gives the directors more confidence that their business planning is robust and that they aren't making decisions based on fundamentally flawed projections.

QUESTION 2

August 2025 Question One B

General principles that my firm would have to apply in performing the review engagement

1. Ethical Requirements

- The auditor must comply with the **relevant ethical requirements**, particularly those related to **independence** and **objectivity**, as outlined in the **Code of Ethics for Professional Accountants**.
- This ensures the review is conducted with professional integrity and impartiality, maintaining public trust in the financial information being reviewed.

2. Planning and Performing the Review with Professional Skepticism

- The review engagement should be **properly planned** and conducted with an attitude of **professional skepticism**.
- This means the auditor should remain alert to circumstances that may indicate possible misstatements, even though the level of assurance is lower than an audit.

3. Obtaining Limited Assurance through Inquiry and Analytical Procedures

- The review provides **limited assurance**, not the high level of assurance of an audit.
- The procedures primarily involve **inquiries** of management and **analytical procedures** applied to financial data, rather than detailed testing.
- Based on these procedures, the auditor expresses a conclusion on whether anything has come to their attention that causes them to believe the interim financial information is **materially misstated**.

QUESTION 3

April 2025 Question Three C

Differences between a “review engagement” and an “external audit”

Aspect	Review Engagement	External Audit
Level of Assurance	Limited (negative) assurance – “nothing has come to our attention...”	Reasonable (positive) assurance – auditor gives an opinion on financial statements
Nature of Procedures	Mainly inquiries and analytical procedures	Extensive procedures: inspection, confirmation, testing, observation, etc.
Reporting Outcome	Provides a conclusion (not an opinion)	Provides an audit opinion
Cost and Time	Less costly and less time-consuming	More expensive and time-intensive
Purpose and Applicability	Used when full audit is not required (e.g., for smaller entities)	Often required by law or regulation for larger or public interest entities

QUESTION 4

August 2024 Question One C

Differences between “reasonable assurance engagements” and “limited assurance engagements”

Reasonable assurance engagement is a type of audit or review where the auditor aims to reduce the risk of material misstatement to an acceptably low level. This means that the auditor performs a thorough examination of the financial statements or other subject matter, using a variety of procedures

Limited assurance engagement is a type of audit or review where the auditor provides a lower level of assurance than in a reasonable assurance engagement. This means that the auditor performs less extensive procedures, often involving inquiries and analytical procedures, rather than detailed testing.

Key Differences

Feature	Reasonable Assurance	Limited Assurance
Level of Assurance	High	Low
Scope of Procedures	Extensive	Limited
Form of Conclusion	Positive	Negative
Cost	Higher	Lower

QUESTION 5

April 2024 Question One B

Elements of an assurance engagement

- **Three-Party Relationship:** This refers to the interaction between three distinct parties involved in the engagement. There's the **intended user**, who relies on the assurance report (e.g., shareholders). The **responsible party**, who prepared the subject matter being examined (e.g., company management). And lastly, the **practitioner**, who performs the assurance procedures and issues the report (e.g., auditor).
- **Subject Matter:** This is the specific information or area being assessed for credibility. In a financial audit, the subject matter would be the financial statements. The subject matter can vary depending on the type of assurance engagement.
- **Suitable Criteria:** This represents the benchmark against which the subject matter is evaluated. For financial statement audits, the criteria would be accounting standards like IFRS. These criteria ensure the subject matter is assessed based on established principles.
- **Appropriate Evidence:** The assurance process involves gathering evidence to support or refute claims about the subject matter. This evidence can take various